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## COMMENTS ON FEDERAL REGISTER NOTICE

From: Frederick P. Salvucci  
Date: Thursday, June 20, 2002

1) The fact that FAA and PANYNJ are thinking outside the box" and asking for public input is terrific. I would like to suggest "further outside the box thinking," and encourage early implementation of at least some new initiatives beyond extending the lottery. The only real solution to the LaGuardia problem, and the problem of airport congestion in general, is larger aircraft with less frequency. Delay in sending clear signals to the airlines to move in the direction of larger aircraft at less frequency is problematic for two reasons:

a) Airlines are actively making purchases of aircraft which, once purchased, will be in the fleet for decades, and they are currently moving towards more frequent, smaller aircraft in many markets, exacerbating delay problems.

b) More people fly every year. Assuming that the September 11 impacts are overcome, in ten years, at least 30 to 40% more passengers will want to fly, so reasonably accommodating demand requires substantially more capacity. The average number of passengers per aircraft would have to rise by 30 to 40% over the next ten years in the 10 to 15 most congested airports just to maintain today's (unacceptable) levels of delay. To accommodate increased passenger demand and improve (reduce) delay at the busiest airports, increases in the average number of passengers per aircraft must increase by more than 30% to 40%.

In short, the problem is getting worst by the year, so it would be highly desirable to begin some initiatives to increase average passengers per aircraft flight soon, and improve it later, rather than wait for a "perfect" plan.

2) "Demand restraint" is a misleading term in the context of airport congestion. It implies a desire to reduce the number of passengers served, leading to very adversarial contests about whose demand gets restrained. Big cities, small cities all become rivals in that context, leading to very strong conflict.

A better objective is "supply restructuring." This approach recognizes that with increases in average number of passengers per aircraft movement, congestion can be reduced while serving more demand, reducing the potential for conflict among different markets. There are five major

public policy goals that ought to be considered to achieve a "robust" solution, that is, a solution that does not improve one problem by severely exacerbating another. These goals are:

- a) Safety
- b) Capacity
- c) On-time performance
- d) Frequency
- e) Avoidance or reduction of noise and air pollution.

Congestion threatens all of these goals. If larger aircraft at lower frequency can be utilized, safety, capacity, on-time performance, and pollution mitigation can be achieved, with some reduction in frequency.

The problem is, the only choice the individual customer perceives as having is choosing the time and place of a flight from among competing options. So as a competitive strategy, airlines are shifting to greater frequency with smaller planes, which in the context of the busiest, most congested airports exacerbates congestion, and reduces capacity. Since September 11, cost reduction strategies of airlines seem to be exacerbating this tendency, using regional jets in greater frequency in markets previously served by larger jets.

3) Much attention has been given to changing the structure of landing fees, through "minimum" pricing, "flat pricing", "peak" pricing, or "congestion" pricing, as a strategy to reduce congestion. It is almost certainly useful to shift away from the current weight-based landing fees, which provide a perverse incentive favoring small planes. Traditional weight-based landing fees make sense in uncongested airports. They capture adequate revenues to pay for the cost of the airfield, and the fees are reasonably correlated to ability to pay. But once congestion exists at an airport, the use of the runway by each aircraft affects the ability to use the airfield by other aircraft, so it makes sense to shift landing fees to landing and takeoff fees, and to charge an equal amount for every aircraft movement, rather than charging by weight, since the scarce commodity is "seconds on the runway," regardless of aircraft size.

There are three effects that might result from charging "flat" or "premium" fees during peak periods:

- a) some aircraft movements may shift to off-peak times
- b) some aircraft movements may not be made
- c) some trips maybe consolidated into a smaller number of larger aircraft.

At levels of runway fees within the current range, the effects are likely to be modest. Because landing fees are such a small part of overall cost (in comparison with fuel, or value of the aircraft); the primary effects are likely to be to encourage some general aircraft to use other airports, and some consolidation of small turboprop commuter flights into a less frequent number of regional jets, or slight shifts of small aircraft out of peak periods. While shifting flights into the early morning or evening might theoretically exacerbate noise, the fact is that the financial incentive is only proportionally large enough to encourage small, less noisy aircraft to shift schedule. Even relatively large runway fees, which produce revenues in excess of those required

to pay for providing the airfield, may not be adequate to eliminate congestion. The more aggressive "Slot Auction" approach would likely generate very large revenues, which effectively transfers the "monopoly rent" the airlines collect in prize markets to the airport owner. This is likely to be a major political issue, but at least there is some net benefit if congestion can be reduced. Another problem is that relatively small-sized aircraft in strong markets will outbid smaller aircraft from small cities, and small community access can suffer as a result. (One of the proposals anticipates this problem, and handles it by having a separate sheltered market for small community access, a useful response.

4) An interesting question is whether the "Slot Auction" can be structured, market by market, so that the airline which provides the larger aircraft (rather than the highest price) wins the slot, on a market-by-market basis. This would provide an incentive to each airline participating in a particular city pair market to increase the number of seats flown in that market. In order to fill those seats, the airline would then be forced by market pressure to moderate prices. If the slot auction were accompanied by a slight reduction in the number of slots, several benefits could be achieved: less congestion, reducing airline cost, increased capacity, lower fares, and better on-time performance. (Pollution abatement would still require explicit separate attention, but the reduction of congestion would be benign from a noise exposure point of view, and ground noise and air pollution should be eased.)

In order to maintain some airline service stability, each airline could keep two-thirds of their current slots, on a market-by-market basis (the slots filled by the largest planes); one third of their slots (the smallest aircraft) would be re-bid, with the largest aircraft winning slots. The next year, the process would be repeated, with the smallest aircraft slots re-bid.

In this way, one-third of the slots used by the smallest aircraft in each market would be re-bid each year, providing constant pressure to increase seats flown and providing opportunity for new entrants, but on terms which favor consumers.

A particular use of this approach could be to implement the will of the Congress to open new service to small communities. A determination could be made of "over-served frequency markets" (city pairs with more than 10 or 12 movements in each direction per day). Some of these slots could then be diverted to a small community pool, with the determination of who gets the slots based on largest number of seats flown in each sub-market. In this way, the intent of the Congress to open more service to small communities can be met without congestion and without inconveniencing consumers in the major markets whose needs can be met with larger aircraft.

Whenever a reduction in aircraft movements is required to reduce congestion, then a proportion of the one-third weakest slots would be retired rather than re-bid, but this mechanism would "spread the pain" among all markets and affect the smallest number of seats in each market.

In order to retain some fluidity for airlines to serve totally new markets, it might be desirable to subject a small percentage of the re-bid slots to an "open slot auction", allowing

carriers to propose using some slots in totally different markets, but in this case the winner of the slot would be the highest price offered, so airlines could explore totally new markets.

The number of slots dedicated to general aviation would take a proportionate share of a reduction for congestion reduction purposes, and runway fees could place some competitive market pressure if peak, flat, or congestion prices are established in a parallel action. In addition, a proportion of the G.A. slots could be put into the small community auction, or into open competition on a price auction basis.

5) A variation of this approach could be to allow the slot auctions market by market to be based on price, but restrain total revenue from all landing fees to a cost-recovery standard. In this way, every year in each market, the smallest aircraft would have their slots re-bid, putting pressure to increase size, but avoiding major shifts in revenue from airlines to the proprietor. By keeping the auctions separate, city pair by city pair, you could avoid the danger of strong markets totally taking over the slots of weak markets, relying instead on increased aircraft size to accommodate growth in the stronger market.

6) An alternate approach could be to base the competition on gate utilization, with proportionate shares of gate slots" re-bid each year by market. The objective would be essentially identical to 4) above, but the mechanism might be legally rooted in terminal lease terms. This might allow adequate staffing and customer service at terminals to be part of the terms of competition, and might allow a more integrated management approach.

7) A complementary strategy could be to change the "first come, first served" philosophy on takeoff sequence, and prioritize large aircraft over smaller ones whenever delays occur, with a constraint that once an aircraft is 30 minutes behind, it would be admitted to the queue on a sequential basis. In this way, whenever delays occur, the number of person hours of delay can be minimized. This would over time create reinforcing pressures to encourage airlines to use larger aircraft at less frequency in order to achieve on-time performance, and encourage general aviation to use other airports.

### SUMMARY

My recommendation is to quickly institute "peak," "congestion," or "flar" pricing of runway take-off and landing fees, at cost-recovery levels, to begin to introduce some market discipline into small commuter and general aviation markets. This is a step in the right direction but it is unlikely to make a serious dent in the congestion problem, given the extremely high attractiveness of LaGuardia.

Secondly, the current lottery and freeze system should be extended.

Third, "first come, first served" should be modified to give priority to larger aircraft on takeoff.

Fourth, a Part 161 process should be initiated to reduce noise, exploring in particular restrictions on evening and night frequency and aircraft types.

Fifth, options 4), 5), and/or 6) ought to be developed for public comment, in order to have competition produce benefits for consumers by serving demand, rather than creating scarcity profits for airlines or airports through demand restraint, or worst of all, continued congestion which drives up consumer inconvenience, airline costs, and threatens to erode safety.